



Date: May 17, 2017
To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Proposed Jackson/Pettigrew Street Development RFQ Update

Executive Summary

On September 21, 2015, the Office of Economic and Workforce Development (OEWD) presented City Council with a list of disposition alternatives for excess land located adjacent to Durham Station Transportation Center (DSTC). City Council opted to pursue a mixed-use, mixed-income, development alternative to include private development anchored by multi-family residential rental units. Based on the mixed-use, mix-income nature of the project, the Department of Community Development (DCD) began working with OEWD to lead a competitive solicitation process.

On September 8, 2016 City Council received a presentation from DCD staff outlining the tenets of the Request for Qualifications (RFQ) process that would be used to solicit qualified developers interested in the project. On October 5, 2016, DCD and OEWD issued the Proposed Jackson/Pettigrew Street Development RFQ. In response to a February 9, 2017 presentation, City Council directed staff to move forward in the RFQ process with the development team to develop a project vision, conceptual drawings, preliminary cost estimates, leading to a draft predevelopment agreement for consideration by City Council.

Recommendation

The Department of Community Development and the Office of Economic and Workforce Development recommend that City Council receive an update regarding the Proposed Jackson/Pettigrew Street Development, authorize the City Manager to negotiate and enter into an Option to Purchase Contract with DHIC, Inc. and Self Help Ventures Fund, Inc. for the purchase of the Jackson/Pettigrew Street site, subject to the conditions outlined in the agenda memo and the Option to Purchase contract, authorize the expenditure of up to \$125,500.00 in Dedicated Housing Funds for predevelopment cost and authorize the City Manager to negotiate and enter into a Predevelopment Agreement with DHIC, Inc. and Self Help Ventures Fund, Inc. in an amount not to exceed \$125,500.00.

Background

The proposed Jackson/Pettigrew Street Development site is located on the east side of Willard Street (400 block) and the north side of Jackson Street (100 and 200

blocks) immediately adjacent to DSTC. The parcel is L-shaped and consists of approximately 1.9 acres with an appraised value of 2.3 million.

At the direction of City Council, DCD and OEWD issued an RFQ on October 9, 2016 with the goal of soliciting a development partner that is a leader in the real estate industry with a proven track record of developing, marketing, and managing mid to high density residential and mixed-use projects, to include affordable and mixed-income housing units.

On December 9, 2016, the City received one Statement of Qualifications (SOQ) in response to the RFQ from a Joint Venture between Self-Help Ventures Fund (Self-Help) and DHIC, Inc. (DHIC). An evaluation team consisting of representatives from multiple departments and organizations evaluated the single development team proposal which received a score of 39.5 out of a possible 100 points.

On February 9, 2017, staff provided an update to Council outlining the single response received to the RFQ, and offering potential insights into the circumstances which may have contributed to the limited number of responses received. Based upon a lower than anticipated number of RFQ responses, coupled with lower than anticipated SOQ scoring, staff identified and presented City Council with three alternative courses of action related to proposed project and the RFQ process.

At the conclusion of the February 9, 2017 work session, City Council directed staff to move forward in the RFQ process with the identified development team, to develop a project vision, conceptual drawings, preliminary cost estimates, and a draft predevelopment agreement for consideration by City Council, to include desired changes to the requirements within the RFQ (if any). The financial impact of the selected alternative was to be determined.

Consistent with City Council directives, staff recommends that the City sign an Option to Purchase Contract for the site contingent upon the development team adhering to defined parameters, which enables the development team to begin design of the project at their expense. Should the City determine at a future point not to move forward with the development, the development team would have the option to seek reimbursement of a predetermined percentage of the cost as defined under the Financial Impact section.

Issues/Analysis

Numerous known and unknown site conditions have the potential to impact development of the subject site. While known and unknown site conditions may not prevent development of the site, such conditions have the potential to add additional cost to the overall development effort. Noteworthy site conditions staff and the development team have been working to accurately assess include but are not limited to the following:

Defined Site Boundaries

The proposed project site currently consists of one parcel which is shared with the Durham Station Transportation Center (DSTC). Staff has communicated with other City departments to determine the estimated boundaries for the developable area. This is a critical path in the development process as site boundaries are required to begin the design and subdivision process. To assist with establishing boundaries, the City will execute a Right of Entry Agreement with the proposed development team and the development team will proceed with procuring a surveyor to begin determining final site boundaries. The cost of the survey is included in the overall project cost, and the City has agreed to reimburse the prospective developer for the cost of the survey. This cost will be charged against the Dedicated Housing Fund.

Land Subdivision/Planning

A Minor Final Plat with a "Public Access Easement" that is large enough for a pedestrian mall, alley, or public street to be proposed with the eventual site plan/development plan is required. Typically it takes no more than 3 reviews for a plat to be eligible for approval.

Environmental Assessment

During the due diligence process, staff contracted with an environmental firm to complete a Phase I Environmental Site Assessment (ESA). The results of the Phase I ESA which includes but is not limited to; the review of records associated with the site, a site inspection, and interviews with property owners and neighbors of the property, recommended that a Phase II ESA be conducted. A Phase II ESA will include sampling and laboratory analysis to confirm whether soil or water contamination exists that might hinder development as proposed. Staff is in the process of identifying a firm to conduct a Phase II ESA. The City is the responsible party and the cost will be charged to the Dedicated Housing Fund unless alternative funds can be identified.

Engineering and Storm Water Management

Staff engaged the Public Works Department to help identify limits/barriers that are known or have the potential to exist in reference to the development of the site. It is important to note that these requests and responses were provided without benefit of a development plan for review. Noted conditions include but are not limited to:

- The establishment of new property lines, could potentially require newly recorded storm drainage easements as there are existing storm drainage pipes and inlets that collect and convey runoff from the site, this could potentially decrease the area of development;
- Staff/developer should confer with Water Management on capacity as there are existing water and sewer mains in Jackson and Willard Street;
- The proposed development would likely have to provide storm water detention on the site. To minimize cost, detention could possibly be provided by using an underground oversized pipe, but if there is no location to install under a parking area, providing detention could be expensive and logically difficult;

Transportation Operations

Staff similarly has engaged the Transportation Department at several points during the due diligence process. Noted conditions again include but are not limited to:

- During the design phase of DSTC construction a decision was made to reduce the original scope and size of the station to save on construction costs. As recently as 2015 staff identified a potential need for as many as four additional gates to service the station. At least one informal gate “referred to generally by staff as Gate Q” was in use at the station as of 2015;
- Retaining the land area that currently serves as the 2nd floor courtyard on the west side of DSTC to reserve space for future pedestrian bridge over Chapel Hill Street;

Related Third-Party Reports/Analysis

Consistent with items noted above additional information derived from third-parties which could impact development of the site include but are not limited to:

- Updated Appraisal to determine current market value,
- Market study to include residential and commercial,
- Geotechnical Report,
- Analysis of capacity of existing utilities to serve property,

Alternatives

Financial Impacts reported by staff herein include an estimated financial request of the City to date, which includes sale of the proposed development site for \$1.00, a potential construction subsidy request of \$4,000,000 to \$6,000,000, and potential costs associated with public infrastructure improvements which are yet to be determined. City Council could elect to move forward to the next stage of the development process with the prospective development team, or chose to pursue other development options on the site.

Financial Impact

The prospective development team has requested that the developable land be optioned at a cost of \$1.00. The estimated value of the property based on a November 2015 appraisal is \$2,300,000. Staff is in the process of identifying a firm to conduct an updated appraisal to confirm current market value consistent with the newly surveyed site boundaries. The development team estimates an additional subsidy of \$4,000,000 to \$6,000,000 will be required for construction of 100 - 120 units with a mix of 80% affordable and 20% market rate. This estimate is based on the development teams experience in previous affordable housing developments and equates to approximately \$40,000 to \$60,000 in subsidy per unit proposed. As detailed further in the memo, the required subsidy will be further redefined as the development budget is prepared and under the current proposed schedule would be presented to City Council in October of 2017. The inclusion of market rate units is not an eligible expense for tax credit funding which contributes to higher subsidy

requirements. The Qualified Allocation Plan published annually by the North Carolina Housing Finance Agency (NCHFA) further requires that not less than 15 percent of total units be one-bedroom and not less than 25 percent of total units be affordable to families earning 30 percent or less of the Area Median Income.

The subsidy request is contingent upon the following:

- No recognized environmental conditions or substantive findings from geotechnical reports lead to significant increases in site-work;
- Structured on-site parking sufficient for residential uses. The City will need to articulate any goals for on-site parking above the needs of the residential portion of the project;
- Commercial space is to be provided; however, underwriting criteria for lenders and tax credit syndicators do not permit inclusion of commercial income in pro forma. Further, the Development Team does not yet have an estimate of the size and cost of commercial space appropriate for this project;
- Operating expenses will depend on the final unit count, building type, real estate taxes, and other details to be determined during predevelopment;
- Tax credit request will likely be for the \$1,000,000 maximum due to the design requirements of the RFQ. More information regarding changes to the NCHFA Qualified Allocation Plan and 2017 tax credit awards will better inform this request;
- The property is expected to qualify for NCHFA's Chart B construction cost characterization, which requires NCHFA to recognize the "development challenges resulting from being within or adjacent to a central business district;"
- There are no significant changes to the Qualified Allocation Plan, tax credit pricing, or debt assumptions that jeopardize the feasibility of the project;

Consistent with the parameters noted above, the development team requests that the City enter into an Option to Purchase Contract for the Jackson/Pettigrew Street site with negotiated deal points to include the following:

- The development team will deliver all components outlined in the RFQ;
 - Approximately 100-120 units at a 80/20 mix affordable/market rate units,
 - Commercial space for retail use, management offices, fitness facility, and other on-site amenities,

- Structured parking on-site sufficient for residential uses. Parking reduction will need to be requested from NCHFA. Parking structure type and cost will be determined during predevelopment,
- Development team will present the following deliverables during a planned October update to City Council;
 - Design Documents
 - Site plan to include sidewalks, vehicular ingress/egress and all site features,
 - Outline of stormwater and utilities plan,
 - Front, rear and side building elevations,
 - Building plans showing apartments and common areas,
 - Floor plans of each unit type,
 - Perspective drawings of buildings,
 - Financial/Market Feasibility
 - Projected Sources and Uses of funds,
 - Estimate of construction costs for late 2019 start date,
 - Proposed size of apartments, unit mix, rents and utility allowances,
 - 20-year proforma projection of income, expenses, debt service and cash flow,
 - Cost component of market rate apartments,
 - Cost component of commercial space,
 - Amount of proposed financial assistance from the City,
- If the City agrees to provide financial assistance to the project in the form of a subsidy, the City will provide a financing commitment by December 2017;
- Development team will incur an estimated cost of \$187,000 to prepare development and financing plans to include architectural, engineering and financial models;
- If the project does not move forward, the City will reimburse the development team \$125,500 of the \$187,000 in predevelopment cost as detailed below:

Use	Development Phase	Cost
Survey	Predevelopment	10,000
Geotechnical	Predevelopment	\$5,000
Market Studies	Predevelopment	6,000

Legal	Predevelopment	3,000
Architecture	Conceptual	15,250
Engineering	Conceptual	4,500
Construction Cost Analysis	Conceptual	3,750
Architecture	Schematic	67,900
Engineering	Schematic	4,500
Construction Cost Analysis	Schematic	3,750
Development Feasibility Analysis	Ongoing	40,000
Project Management	Ongoing	24,130
Total		\$187,780

In summary, the estimated financial request of the City to date, includes sale of the land for \$1.00, a potential construction subsidy request of \$4,000,000 to \$6,000,000, and potential costs associated with public infrastructure improvements which are yet to be determined.

SDBE Summary

N/A